



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

Document No: 21.16.1-2017-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY
OF INTERNAL AFFAIRS FOR
THE YEAR ENDED 31 DECEMBER 2017

Prishtina, June 2018

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Internal Affairs in consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Fjolla Bakalli (Team Leader) and Pleurat Isufi and Albana Kadriu-Zogjani (team members) under the management of the Head of Audit Department Bujar Bajraktari.

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Ministry of Internal Affairs, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan dated 06/10/2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Ministry of Internal Affairs.

The National Audit Office acknowledges Ministry's Senior Management and the Staff of for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with the emphasis of matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

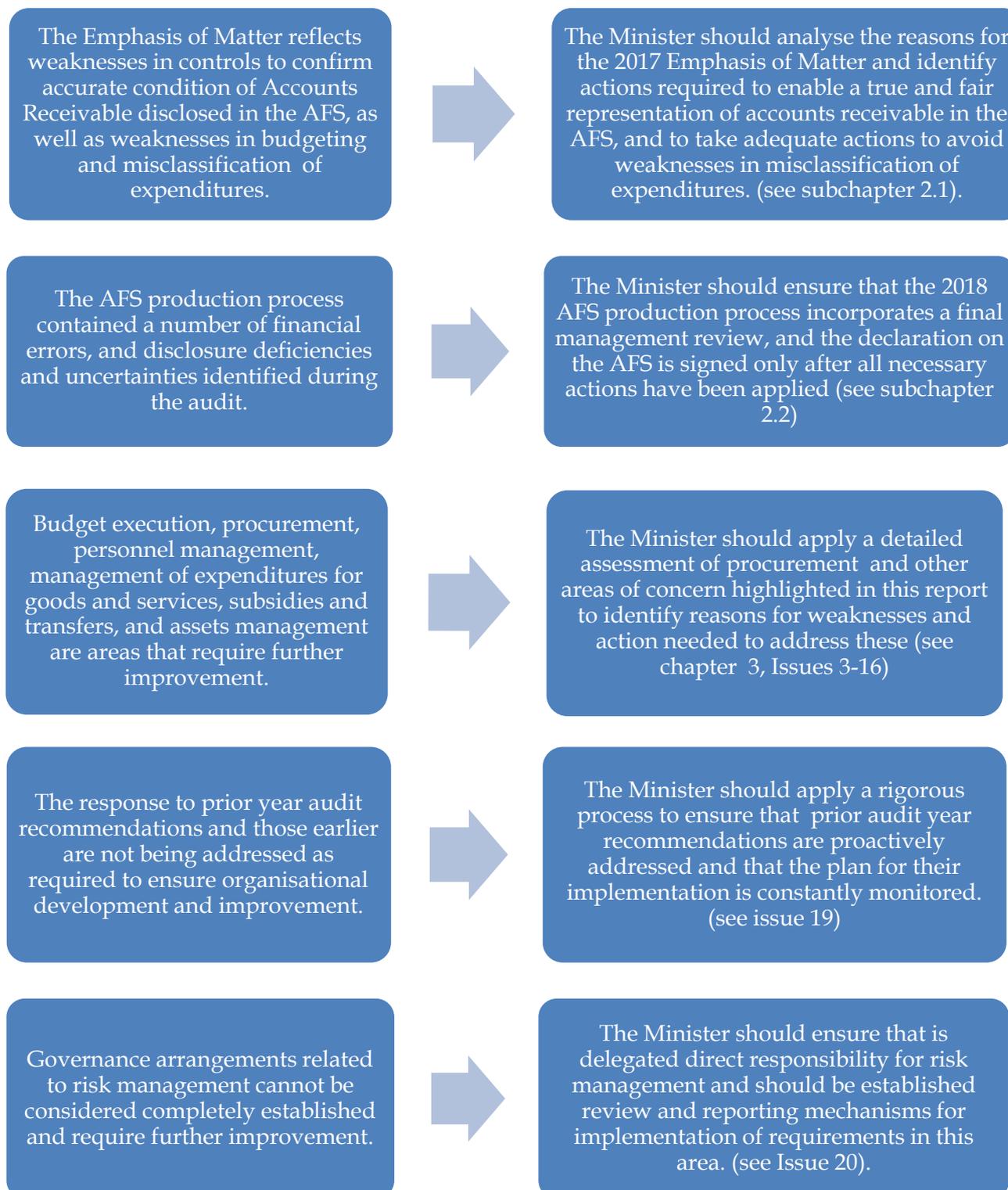
Emphasis of Matter

We draw your attention to the fact that the information disclosed in the AFS related to the value of accounts receivable was not correct and expenditures that belong to the goods and services were budgeted and spent incorrectly out of the category of Capital Investments.

For more, please refer to Section 1.2 of this report.

Annex I explains the different types of Opinions applied by the National Audit Office.

Key Conclusions and Recommendations



The Management's Response on 2017 audit

The Management has not agreed with all audit findings and conclusions. Comments are given in detail in Annex III.

1 Audit Scope and Methodology

Introduction

The National Audit Office (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for Ministry of Internal Affairs. We have analysed the Ministry's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the AG's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. Management's responses to our findings can be found in Annex III.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

2 Annual Financial Statements and other External Reporting Obligations

Introduction

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance.

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Ministry of Internal Affairs for the year ended on 31st of December 2016 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting by Budget Organisations.

Basis for the opinion

Our audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

We draw your attention to the fact that:

- Accounts Receivable of the Kosovo Police in the amount of €6,656,645 were not disclosed in the consolidated AFS of the MIA that relate to outstanding fines for traffic violations, namely all traffic tickets up to €60 which were issued during 2017. MIA failed to identify and correct this error on time, thus the AFS were not corrected; and
- In addition, we want to draw your attention to the fact that due to incorrect budgeting of a certain number of capital projects¹, which belong to the nature of goods and expenditures, MIA and KP had misclassified expenditures in the amount of €985,345. As a result, capital expenditures were overstated and expenditures of goods and services were understated. Misclassified expenditures include a payment carried out by the MIA in the amount of €448,863 for the purchase of uniforms for fire-fighters and 14 payments by the KP that amounted to €536,482 for inventory, equipment for police service, information technology equipment and software maintenance. Our opinion has not been modified related to these issues.

Key Audit Matters

The MIA had disclosed contingent liabilities in the AFS with a proximate value of €649,579. We have handled the nature of cases of outstanding liabilities disclosed, and the potential outflows of funds in the future from a potential liability, but the entity had not provided sufficient information. The legal office that functions within the MIA and the KP did not have accurate information regarding the cases due to which the institution was subject to court disputes as a defendant or plaintiff. The reason why accurate information was missing is due to insufficient communication of this Office with the State Advocacy which represents the Ministry in court proceedings. Moreover, there was no internal communication between the Department of Finance and the Legal Office. In three out of five cases disclosed as contingent liabilities in the AFS, we were not provided evidence that confirms the existence of a claim/lawsuit against the KP to disclose a potential liability. In another case, the case disclosed as a contingent liability was closed with a final decision in the favour of KP. As a result, disclosures presented in the AFS for contingent liabilities cannot be considered as accurate.

Responsibility of Management and Persons Charged with Governance for AFS

The Secretary General of the Ministry of Internal Affairs is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements

¹ Supply with fire-fighting uniforms - Project Code 14401; Furniture (Office Inventory) - Project Code 13161; Police Equipment - Project Code 30041; Equipment for the radio-communication system - Project code 12211; Advancement of the BMS system - Project code 14251; Information Technology Equipment - Project Code 30046.

that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure the oversight of Ministry's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

2.2 Compliance with AFS and other reporting requirements

The Ministry of Internal Affairs is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
 - Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
 - Compliance with Financial Rule no.01/2013 and 02/2013;
 - Action Plan on implementation of recommendations;
 - Final procurement plan: and
 - Requirements of Financial Management and Control (FMC) procedures.
-

In the context of the AFS, we have no material issues to raise. However, besides the issues raised in the emphasis of matter, we have identified some errors that need to be corrected in “Article 14 - Budget Execution Report” namely in the table “Cash inflow into the treasury account”:

- At “Cash inflow into the treasury account”, in the final budget column should have been presented the value of current year’s donations, while the MIA had included the value of donations carried forward from the previous year in the amount of €10,896. Moreover, at the column of execution was presented the amount spent from donor funds of €1,250,430, while should have been presented the amount of donor funds received, which for current year was €1,260,158€. As a result, the disclosure of Note 12 to the AFS was done incorrectly.

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered correct, as errors identified are not material and do not affect the audit opinion.

In the context of other external reporting requirements, we have no issues to raise.

2.3 Recommendations related to Annual Financial Statements

On issues identified above are given the following recommendations:

Recommendation 1 The Minister and the Director General of the KP should ensure that an analysis is undertaken to determine the causes of emphasis of matter. In this respect, Accounts Receivable should be identified accurately and disclosed in the AFS;

Recommendation 2 The Minister should ensure that expenditures are planned and incurred out of adequate economic category, in order to have correct presentation in the AFS. The draft process of the AFS for 2018 should include a review by the Management, with specific focus on high risk areas and areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

3 Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

In the context of financial systems, controls over revenues are generally appropriate and are being implemented effectively – but controls over a range of expenditure areas require further enhancement to prevent potential irregularities. The main areas where most improvements are required are budget execution in the category of capital investments, processing of payments and management of subsidies. Furthermore, procurement continues to remain a concerning area due to non-implementation of the plan and due to delays in completing projects.

Furthermore, the MIA and its Agencies continue to hold key positions with Acting for long periods of time, whereas engagements with special service agreements have exceeded permitted deadlines. Assets management and reporting of outstanding liabilities need to improve.

3.1 Budget Planning and Execution

We have considered the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:.

Table1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	114,514,272	119,738,597	117,486,461	104,966,519	110,171,541
Government Grant -Budget	113,623,143	117,388,377	115,165,600	104,221,135	108,994,018
Carried forward from previous year³ -	-	188,036	179,544	42,291	327,520
Own Source Revenues⁴	891,129	891,129	890,887	703,093	848,800
External Donations	-	1,271,054	1,250,430	-	1,203

² Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own budget.

The final budget is higher than the initial budget by €5,224,325. This increase is a result of external donations and revenues carried forward from the previous year, as well as the increase applied after the budget review and Government decisions.

The MIA In 2017 had spent €117,486,461 or 98% of the final budget, and compared to 2016, budget execution was almost at the same level (99%). However, budget execution in the category of capital investments remains unsatisfactory compared to the initial budget. Below are given explanations on the current position.

Table 2. Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	114,514,272	119,738,597	117,486,461	104,966,519	110,171,541
Wages and Salaries	74,480,460	76,235,168	76,217,698	74,860,541	72,310,539
Goods and Services	18,981,845	28,149,069	26,468,081	18,227,575	21,798,547
Utilities	2,036,500	1,821,800	1,462,301	1,771,634	1,686,099
Subsidies and Transfers	2,821,867	5,160,166	5,137,971	2,152,044	2,600,736
Capital Investments	16,193,600	8,372,395	8,200,410	7,954,725	11,775,620

Explanations for changes in budget categories are given below:

- The increase of the final budget for wages and salaries by €1,754,708 compared to the initial budget was due to allocation of additional funds at the end of 2017 based on Government decision in the amount of €1,500,000 in order to carry out payments for overtime work to employees within the Police (KP). While the other part has increased after the budget review in order to cover the remaining deficit;
- The final budget for goods and services had increased by €9,167,224 compared to the initial one. This increase was as a result of budget review. This change mainly relates to Minister's decision to allow the payment of dispute lost in arbitration regarding the travel documents;
- The final budget for utilities was reduced by €214,700. This change came as a result of budget review where funds from this category were transferred to the category of goods and services;
- The final budget for subsidies and transfers had increased by €2,338,294 compared to the initial one. This change resulted due to the budget review process, transfers from the category of goods and services and the receipt of donation from GTZ (Gesellschaft für Technische Zusammenarbeit) in the amount of €1,214,393, which were allocated for subsidies, to fund business plans as part of support for reintegrated persons; and

- The final budget for capital investments compared to the initial budget was almost halved, whereby it was reduced by €7,821,205 as a result of the budget review process, and decisions of the Minister of Finance and the Government. Execution compared to the final budget was at 98%.
-

Issue 3 - Budget Execution

Finding Budget execution for capital investments remains the main challenge faced by the MIA and the KP. Even though the annual execution compared to the final budget was at 98%, we cannot say that it is a good performance indicator as if we compare it to the initial the budget execution was only 50%. According to the initial budget law, 52 capital projects had been planned, while only for 37 projects were incurred expenditures. Reasons why projects were not implemented is due to lack of requests for initiation of procedures, delays in initiation of procurement procedures in relation to the plan, cancellations of procurement processes as well as delays in signing of contracts due to complaint and dispute procedures in the PRB.

Risk Due to poor budget execution for capital investments results in inefficient use of available resources, and reduces effectiveness of spending plans of the Ministry. Failure to fulfil capital investments programs results in fewer implemented projects and may have impact on budget reduction for the coming years.

Recommendation 3 Minister and the Director General of KP should carry out a systematic assessment of reasons behind non-execution of capital projects and the low level of budget spending in this category. In order to overcome potential obstacles, should be defined specific and practical measures in order to improve budget execution and capital projects.

3.2 Revenues

Revenues generated by the MIA and its Agencies in 2017 were in the amount of €49,184,900. They mainly relate to vehicle registration taxes, road taxes, travel document fees, Identification cards fees, driving license fees, ecological fees, and revenues from traffic fines.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	891,129	1,079,165	49,184,900	44,692,833	43,201,460
Total	891,129	1,079,165	49,184,900	44,692,833	43,201,460

In the table have been presented revenues allowed to be used (in the column of initial budget), while in the column of final budget are revenues allowed to be used, including revenues carried forward. At the receipts were presented collected revenues. Compared to previous years, we notice an overall increasing trend of revenues collected. Despite this, we have identified the MIA and its subordinates that generate revenues do not make any forecasts of values expected to be collected throughout the year.

Issue 4 - Lack of revenue planning

Finding The MIA, including its subordinate Agencies that generate revenues had not planned/forecasted a value of revenues that they would collect during 2017. As a result, in the AFS, comparison of the plan with collection was impossible.

Risk Due to lack of a plan for own source revenues makes it impossible to measure the performance of institution in collection of revenues.

Recommendation 4 The Minister should ensure that is done an approximate revenue forecast/plan, in order to enable measurement of institution's performance.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system managed by MPA and MoF. The final budget for wages and salaries was €76,235,168, while expenditures incurred were €76,217,698. The number of planned staff was 10,389 while the current number of employees at the end of 2017 was 10,041. The largest number comprises of Kosovo Police employees, namely 8,752, while the rest are of the MIA and other Agencies.

Recommendations

We have no recommendations in this area.

3.4 Personnel Management

In the following are presented some of the issues identified that relate to managing weaknesses and organising of staff. From our tests we have identified the following issues:

Issue 5 - Occupying leadership positions with Acting Duty for long periods of time

Finding

In the MIA and its subordinate Agencies leadership positions continue being occupied with Acting Duty for long periods of time, instead of filling these positions with regular staff members.

Law No. 03/L-149, on Civil Service of the Republic of Kosovo, Article 30.4, stipulates, "If a position in the Civil Services becomes vacant, acting civil servants in that position shall not be appointed for a period exceeding three (3) months". In addition, the AI no. 07/2012 on Employment Relationship in the KP specifies the time period for Acting Duty in a duration of up to six months with the possibility of extension for another three months.

Based on the data reported by Personnel Units for 2017, the number of positions occupied with Acting Duty was as follows:

- In the MIA, 10 positions, out of which one position is occupied with Acting as of 2014, four since 2015, and two since 2016;
- In CRA 11 positions, out of which two since 2011, two since 2015 and one since 2016;
- In Kosovo Forensics Agency (KFA), one position since 2016;
- In the Emergency Management Agency (EMA) six positions, out of which, four are since 2011, and two since 2014;
- In the KP 15 positions, out of which one position since 2014, and three positions since 2016;
- In the Kosovo Agency for Public Safety (KAPS) two positions, one since 2013 and the other since 2016; and
- In the Kosovo Police Inspectorate (KPI) one position since 2016.

Risk

Occupying positions with Acting for long periods of time, whereby exceeding legal deadlines affects entity's operational performance quality, as almost all positions occupied with Acting are leadership positions.

Recommendation 5

The Minister, the Secretary General and the Directors of Agencies have to ensure that within a reasonable period of time are initiated procedures for recruitment of regular staff for all positions that are occupied by Acting Duty officials.

Issue 6 – Exercising positions in disagreement with ranks achieved

Finding For arrangements of work relationship in the KP during 2017 was applied the AI No. 07/2012 and 03/2017, which were later repealed with the entry into force of the AI No. 04/2017 in December 2017. This AI, just as well as previous AIs, foresees that upon systematisation of employees or appointing in vacant positions should be followed conditions and the criteria foreseen for those positions, including qualification, rank, experience etc.

In the KP, 375 employees of police staff continue to exercise positions in disagreement with ranks achieved. Based on a decision by the Director General, compensation for employees that exercise higher positions is done based on the position and not based on the rank achieved by the employee. This occurrence is in disagreement with the payroll system of the KP, where the basic salary coefficient for the police staff is determined depending on the rank and not the position. Regarding this issue, we have also recommended in the previous years. Despite this, during 2017 there was an increase of such cases.

Risk Exercising other ranks without going through regular rank processes and compensation based on positions is in disagreement with the payroll system, and poses a risk of positions being managed by persons who do not meet the necessary criteria. This results in increase of expenditures and budget harm.

Recommendation 6 The Minister and the Director General of the KP should ensure that systematisation of police staff in vacant positions is done after meeting the regular recruitment criteria within the KP, while compensation of employees should be done in line with ranks and the current payroll system.

Issue 7 – Engagement with special service contracts for regular positions

Finding According to the Article 12, paragraph 4, of the Law on Civil Service (LSC), “Fixed-term appointments of less than six (6) months shall be governed by contracts called Special Service Agreements and shall be regulated by the Law on Obligations and a simplified recruitment procedure shall be applied”.

The MIA continues to engage employees with special service agreements, which are engaged without regular recruitment procedures. The number of those engaged in this form during 2017 was 13, out of which nine cases belonged to the EMA. In nine out of 13 abovementioned cases was exceeded the legal deadline for engagement of employees in this form.

Risk Engaging employees with Special Service Agreements without recruitment procedures minimizes the competition and increases the risk of engaging inadequate persons for certain positions. Duration of these Agreements for more than 6 months is not in line with legal provisions.

Recommendation 7 The Minister should initiate a comprehensive review in order to accurately determine staff needs, so that all required positions are filled with regular staff. If there is a need to engage staff for a short period of time, then should be applied procedures required under legal provisions.

3.5 Goods and Services and Utilities

The final budget for goods and services (including communal services) for 2017 was € 29,970,869. Of these, € 27,930,382 or 93% of the final budget was spent. These expenditures relate to food and beverage supply, supply of official material, fuel supply, provision of clothing, maintenance of ID cards, passports and driver's licenses, building security, etc. From our tests we identified the following issues:

Issue 8 - Delays in carrying out payments

Financial Rule No.01/2013/MoF – stipulates that, “All invoices received by a budget organisation should be paid within 30 days if not otherwise foreseen under the contract.”

In six tested payments⁵ that amounted to €303,353, there were delays from five to 78 days after the 30-day deadline.

Risk Delays in execution of payments increase the risk of additional payments due to penalties or potential interest rates towards Economic Operators. In addition, there is a risk of failing to meet payments in the current year and transfer them as liabilities in the following year.

Recommendation 8 The Minister and the Director General of the KP should ensure that payments are carried out in full compliance with deadlines set out in the LPFMA and the Treasury Rules.

⁵ Two invoices in KP and four in MIA.

3.6 Subsidies and Transfers

The final budget for subsidies and transfers was €5,160,166, out of which were spent €5,137,971 or 99% of the budget. These payments mainly relate to subsidies of beneficiaries in the reintegration program and repatriated persons, labour market, support to the KP employees, consultancy services for repatriated persons, etc. From our testing we have identified the following issues:

Issue 9 – Failure to functionalise the business

Finding During 2017 out of the reintegration budget were subsidised 11 beneficiaries. In the period April-August were 152 beneficiaries, and in the period September-December were carried out payments for 159 beneficiaries.

We have analysed the report of MIA and the statement of projects financed for beneficiaries of subsidies for the period April-August. For this period, beneficiaries were obligated to provide evidence that funds received by the MIA were spent in accordance with the purpose of business. Based on monitoring conducted by the MIA team in the field, we noticed that for this period, 94 businesses were active or 62%, while 58 or 38% were inactive.

During the audit we have also found that in the payment for financing the business plan in the amount of €3,000, the beneficiary had not provided an invoice proving that funds were spent in line with the business plan.

Risk The lack of evidence that funds are used in line with the business plan and lack of adequate monitoring by the MIA poses a risk, as funds may not be used in line with intended purpose.

Recommendation 9 The Minister should demand from responsible persons strengthening of mechanisms for management and monitoring of subsidies, in order to obtain reasonable assurance that funds given as subsidies are used correctly and in line with the intended purpose.

3.7 Capital Investments

The final budget for capital investments was €8,372,395, out of which in 2017 were spent €8,200,410, or approximately 98%. These payments relate to construction and repair of facilities, purchase of vehicles, purchase of various police equipment, etc. From our tests we have identified the following issues:

Issue 10 – Exceeding of deadline for evaluation of bids in the KP

Finding According to the “Operational Guideline for Public Procurement”, namely Article 35 of this Guideline: the procedure for examination, evaluation and comparison of tenders will be performed by the Contracting Authority within the shortest possible period of time and not more than 30 days from the bid opening. Only in exceptional and justified cases, in particular with contracts of a complex nature, this period may be extended for an additional period of 10 days. We have found that in the procurement process for “Supplying with bulletproof vests” there were delays in completion of evaluation of over three months (bid evaluation had started on 14.11.2016, and ended on 21.03.2017). According to the evidence provided by the Police, this delay occurred due to the impossibility of implementing a decision of the PRB for reasons that did not depend on the Contracting Authority. The decision related to testing of abovementioned items.

Risk The delays in concluding the process of evaluation of bids, can cause delays in supplying with certain items that directly affect operational activities of the KP.

Recommendation 10 The Minister and the Director of the Kosovo Police should ensure that bid evaluation procedures are completed within the foreseen timeframes set by the legislation and applicable Guidelines.

Issue 11 - Delays in constructing the facility of MCRC and MCVR in Istog due to poor planning

Finding The initial contract for construction of the Municipal Civil Registration Centre (MCRC) and the Municipal Centre for Vehicle Registration (MCVR) in Istog, signed on 11.09.2015 in the amount of €309,155 stipulated that works for construction of the building are completed within 115 days of work. Due to poor planning, after the initiation of construction works, deficiencies were noticed in the basic project, as a result of which the Contracting Authority (CA) on 14.11.2016 had concluded an annex contract in the amount of €6,369 for elimination of these deficiencies. In addition, in December 2016 was concluded another contract for additional works in the amount of €6,660. Technical acceptance of the facility was done on 14.12.2017, namely with 18 months delay, compared to what was foreseen in the initial contract.

Risk Lack of proper planning for construction projects poses a risk as projects may need additional financial resources, and may not be implemented according to plan.

Recommendation 11 The Minister should ensure that upon initiation of procedures for new construction projects, more attention should be paid to specification of requirements, and planning of facilities should be done by taking into account all elements that make up the facility functional as a whole. This would help eliminate delays in implementation of projects, and to avoid the need for additional funds.

3.8 Common Issues on Goods and Services and Capital Investments

In the following have been presented issues related to goods and services and capital investments:

Issue 12 - Deficiencies in implementation of procurement procedures

Finding In the KAPS, the bid evaluation committee for the procurement activity "Renovation of KAPS facilities" started the bid evaluation process seven days after the bid opening. This is in disagreement with the "Operational Guidelines for Public Procurement", article 41.2, which states that bid evaluation process should begin no later than five days from the bid opening.

Furthermore, in the contract "Supply with construction material" in KAPS, signing of the declaration under oath by the bid evaluation committee was done four days after the initiation of the tender evaluation process.

Risk Delays in evaluation of bids and signing declaration under oath by the evaluation committee are not in compliance with legal requirements and present deviation from procedures.

Recommendation 12 The Minister and the Director General of KAPS should increase controls over the procurement process and ensure that all procedures and deadlines are strictly followed.

Issue 13 - Irregularities in receiving goods and processing of payments**Finding**

In 27 tested payments that include MIA, KP and KAPS (20 related to goods and services and 7 capital investments) we have found that the Purchase Order was issued after goods/services were received, and after the invoice was received, while in 20 cases the commitment of funds was done after the invoice was received. This is in disagreement with general procedures for processing of payments stipulated under the applicable legislation.

Related to abovementioned cases in the MIA, within the contract "Media Information Campaign" in the amount of €17,818 was foreseen shooting of an anti-terrorism ad, purchase of advertisement space to broadcast this ad on television and online portals in the amount of €9,794. Under the contract was foreseen that the service will be delivered 45 calendar days from the date of the order, and that publication will end no later than 31.12.2016 (expiry date of the contract). This service was delayed and the publication was done on April 2017. Purchase order was issued after receiving the invoice.

In the payment "Supply with Vehicle Registration Certificates" in the amount of €27,700 in the MIA, there was a delay in receiving of goods by 56 days. The contract manager had postponed the delivery deadline by 30 days, under the justification that the supplier had issues at the warehouse. However, according to the specific terms of the contract, the supplier can request a postponement of the delivery deadline only if the implementation of the contract is delayed for reasons that are not as a result of supplier's fault. The issue at the warehouse had occurred due to supplier's mistake, as the warehouse did not meet the conditions for storing goods. Despite this fact, the MIA had not applied the penalty for the delay in the amount of €900.

In the payment "Supply with office supplies" in the amount of €57,500, in the MIA, even though goods were received within the terms of the contract, processing of purchase order was done after the receipt of the invoice, and after the expiry of the contract. The contract had expired on 12.11.2017, invoice was received on 20.12.2017, while the purchase order was issued on 21.12.2017.

Risk

Entering into liabilities without commitment of funds leads to delays in implementation of contracts, and to possible increase of outstanding liabilities, which become a burden for the budget of the following year. Processing purchase orders with a delay makes it impossible to calculate accurately funds that need to be withheld or other penalties foreseen under contractual arrangements, while delays in the delivery of goods can create difficulties for the Ministry in providing services to citizens.

Recommendation 13 The Minister and the Director of KP should ensure that processing of payments is done in line with applicable legal requirements and procedures. Preventive measures should be taken to ensure timely supply of contracted items and for any delays should be applied penalties foreseen under the contract.

3.9 Capital and Non-Capital Assets

MIA including subordinated Agencies had introduced in the FSB for 2017 net capital wealth (over € 1,000) in the amount of € 48,403,276 and non-capital assets (under € 1,000) in the amount of € 4,289,685.

We tested the acquisitions of the year, including capital investments and equipment and furniture purchases under € 1,000, as well as regularity in inventory and inventory of available assets. We have also done physical examination to verify the existence of the property. From our tests we identified the following issues:

Issue 14 - Understatement of capital assets

Finding Kosovo Police has purchased IT equipment in the amount of €7,928, out of this items in the amount of €2,830 were not recorded in the assets register. An item from this purchase belongs to the category of capital assets in the value of €1,220, while two items of assets under €1,000 with the value of €1,610.

In addition, the MIA had not recorded five AC units as assets under €1,000 that amounted to €1,044, which were purchased for the needs of EMA. Moreover, the Ministry within capital projects had concluded a contract for creation of a "Unified System for Statistical Reporting", the value of which was €41,595. This system was not recorded in the assets register of assets over €1,000 as a capital asset, but was divided per item, where a portion in the amount of €10,679 were recorded as assets under €1,000, items in the amount of €2,594 were recorded as capital assets, while the service in the amount of €24,000 was not recorded at all.

Risk Failure to record fully assets causes understatement of assets for the value not recorded, due to which assets presented in the AFS owned by the Ministry is not accurate.

Recommendation 14 The Minister and the Director General of the KP should ensure that all assets purchased are recorded upon receipt, and classified into adequate categories in accordance with the established rules. In addition, should be ensured that the assets purchased as a capital project are recorded in its full value.

Issue 15 - Management of fleet of vehicles

Finding Management of KP fleet vehicles in terms of servicing and repairing continues to be poor. Delays in vehicle repair were significant where a number of vehicles were waiting for service from 2016. The reasons for long waits for repair according to the fleet officials were: different types of vehicles and different types of malfunctions (for which is required adequate knowledge), small number of personnel, lack of spare parts and age of vehicles. The number of vehicles waiting for repair comprised of 32 vehicles from 2016 and 77 vehicles from 2017. Related to this issue we have also recommended in previous years, but no measures have been taken to improve the situation.

Risk Weaknesses in management of fleet vehicles indicate that internal controls over this area have not yet reached the required level. This increases the risk of poor management, depreciation of vehicles waiting for repair, and loss of vehicle parts.

Recommendation 15 The Minister in cooperation with the Director General of the KP should assess the current situation in the fleet, in order to find reasons behind delays and determine actions needed to improve the process of vehicle servicing.

Issue 16 - Delays in inventorying of assets

Finding According to the regulation 02/2013 on management of non-financial assets, assets inventory should be carried out before the completion of the AFS. We have noticed that the KP and the KPI had produced the assets inventory report for 2017 with a two-month delay. KP had produced this report on 19.03.2018 and KPI on 23.03.2018.

Risk Inventorying assets after the preparation of the AFS poses a risk, as assets presented in the AFS may not be accurate, as physical counting of assets was not done and its reconciliation with assets registers.

Recommendation 16 The Minister, the Director General of the KP and the Director of KPI should look into reasons behind delays in inventorying of assets and hold accountable those persons that participated in this process. In the context of providing accurate information for the AFS, should be ensured that assets inventorying for 2018 is completed before submission of the AFS to the MoF.

3.10 Handling of Cash and Cash Equivalents

This subchapter handles cash, cash equivalents and unjustified advances. From our testing we have identified the following issue:

Issue 17 - Open Advances

Finding MIA had presented in the AFS open/unjustified advances in the amount of €65,872, out of which €50,623 were open advances that were carried forward from previous years. The rest in the amount of €15,249 belong to 2017. MIA has made continuous efforts in cooperation with the Treasury to close these advances, but by the end of our audit nothing has been achieved yet in this regard.

Risk Failure to close/justify open advances poses a risk as funds may be spent for purposes not foreseen.

Recommendation 17 The Minister should ensure that responsible officials verify facts in order to find the causes and eliminate the dilemmas as to whether these advances are justified or not. Furthermore, should be more cautious in the cash management process so that such errors are not repeated in the future.

3.11 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €729,366, and compared to the previous year (€1,688,956) we have a decrease but still is a high value of liabilities. These liabilities relate to goods and services, utilities, etc. and were carried over to be paid in 2018. We have tested the manner of reporting of outstanding liabilities, starting from recording, reporting and up to payment of liabilities and vice versa. From our tests we have identified the following issues:

Issue 18 - Incorrect reporting of outstanding liabilities

Finding Two invoices that amounted to €30,341 (belong to the KP) for fuel supply were not reported as outstanding liabilities and were not disclosed in the AFS of 2017, even though they were received in June and August of 2017.

Risk Failure to report accurately on monthly liabilities poses a risk as invoices may not be identified and paid on time, whereby the Ministry can be exposed to potential penalties claimed by suppliers.

Recommendation 18 The Minister in cooperation with the Director of KP should ensure additional controls over the reporting of liabilities, so that are reported accurate values for time periods, and the status of liabilities should be followed every month and payments carried out on time.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of Ministry of Internal Affairs resulted in 16 recommendations. Ministry of Internal Affairs had prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2017 audit, three recommendations have been implemented, two were in process, and 11 have not been addressed yet. In addition, from the year 2015, ten recommendations were carried forward (eight unimplemented and two were under implementation). Despite the efforts to address issues raised, seven recommendations remained unimplemented, two were in the process of implementation, while one was implemented. As a result, the level of addressing remains almost the same. For a detailed description of recommendations and how they are addressed, see Annex II.

Issue 19 – Implementation of recommendations from previous and earlier year

Finding Due to poor management of the process and lack of formal monitoring on the manner of implementation of AG’s recommendations, only a part of previous year’s recommendations and those carried forward from earlier year have been implemented. We have not noticed that MIA applies responsibility measures for non-implementation of recommendations, as a result same issues have been repeated this year as well.

Risk Due to delays to implement key recommendations can result in continued weaknesses, lack of efficiency and potential financial losses.

Recommendation 19 The Minister in cooperation with Directors of Agencies should implement an effective monitoring process over the plan for implementation of recommendations. Based on monitoring results, should be assessed whether this plan is implementable, identify possible challenges that affect implementation of recommendations and propose and undertake alternative measures if necessary.

5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, coordination of NAO with internal audit and good governance with public assets.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

MIA in general has good controls in terms of its liabilities. Financial management and control has proved a relatively good reporting process and assurance over the implementation of legislation and other control processes. The requirement for completion of the self-assessment questionnaire was fulfilled within the timeframe by the MIA and its Agencies.

However, there are a number of areas where further developments are needed. Herein is included effective response to audit recommendations and addressing them at a higher degree. Implementation of requirements for risk assessment and risk management cannot yet be considered fully established and effective. Despite the developments in identification and determination of potential risks by agencies of MIA (KPI and KAPS), this process has not yet been comprehensive at the institutional level, and there are no monitoring and review mechanisms of the risk management plan.

5.1 Internal Audit System

The MIA and its three Agencies (KP, KPI and KAPS) have Internal Audit Units (IAUs) which operate with: four auditors in the MIA, five auditors in KP, one auditor in KAPS and one auditor in KPI. Each unit had drafted a strategic plan and the annual audit plan based on risk assessment and priorities, while the scope of audits carried out included audits of compliance, performance, system and transactions.

In the annual plans of IAUs for 2017, were planned 33 regular audits, excluding audits based on requests. During 2017 were finalised 32 reports, whereby the planning was fulfilled almost entirely, with the exception of KPI, which failed to complete an audit as planned. In addition to regular audits, were also carried out three audits as requested, out of which one from the IAU of KP, one from the IAU of MIA and one from the IAU of MIA in cooperation with the internal auditor of KPI. Besides timely finalization of a significant number of reports, during the audit were identified various deficiencies in the internal control system of MIA, conclusions have been drawn and specific recommendations have been given in order to improve those deficiencies.

The Audit Committee (AC) had held four regular meetings wherein internal and external audit findings and recommendations were reviewed and actions taken to address the recommendations.

Recommendations

We have no recommendations in this area.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

The MIA had generally designed a good environment of internal control and reporting, within and in relation to Executive Agencies. Internal reporting process functions according to the accountability chain and organizational structure. There is regular reporting by Agencies in consolidating data regarding the financial status at the institution level.

More attention needs to be paid to the application of risk assessment requirements in order to support effective operational and strategic management.

Issue 20 - Weaknesses in risk management

Finding The MIA and Independent Agencies have made some developments in identification and determination of potential risks through development of the risks register, with the exception of the KP, which does not yet have such document. However, since risk management is an activity that requires continuous development, there is room for these registers to be improved in terms of content, in accordance with FMC requirements, and be revised continuously so that risk management can be more effective.

Risk The quality of services provided to citizens will be diminished due to lack of an effective and comprehensive risk management, if risks that affect this are not timely addressed. This is because proactive actions needed to prevent or avoid the impact of such issues will not be undertaken in a planned and systematic way.

Recommendation 20 The Minister, in cooperation with Secretary General and Directors of Agencies, should ensure that direct responsibility for risk management is delegated, and that are established review and reporting mechanisms for implementation of requirements in this area.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion if** it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain

sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

Annex II: Progress in implementation of Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.3 Prior Year Recommendations	The Minister and Directors General should ensure that a revised action plan clearly sets out a timetable and accountable staff members for implementing the recommendations made by the AG with the main focus on the important areas.		In process of implementation	
2.5.2 Risk Assessment	The Minister and General Directors of the Agencies should ensure that immediate responsibility for risk management is delegated to a named Director and ensure monthly reporting on the implementation of requirements in this area and the risks that are being managed.		In the process of implementation. KAPS and KPI have compiled a register of risks while the KP has not yet managed to draft such a document.	
3.4 Procurement	The Minister and Executive Directors should ensure that controls over payment execution procedures should be enhanced. The payment process should be conducted fully in compliance with the steps set forth in LPFMA and with Treasury rules.			Not implemented. There are still irregularities in processing of payments.

	The Minister in cooperation with General Director of KP should ensure that controls over planning (analysis of potential obstacles), monitoring and implementation of capital projects are strengthened further, in order to have the contract implementation deadline adhered to.			Not implemented. There are still delays in fulfilment of contracts.
	The Minister, in cooperation with General Director of KP, should ensure regular monitoring of the budget execution process, so that every bill is paid within the set legal deadline.			Not implemented. Even this year we have identified delays in payments.
3.5 Non Procurement Expenditure	The Minister in cooperation with the Secretary General should ensure that measures are taken to discontinue the practice of entering into contracts without recruitment procedures and ensure that the budget of the following years in the category of wages and salaries include all the salaries for the employees needed, as well the payments of their wages undergo through the payroll system.			Not implemented. Even this year, was identified the same issue.

3.5.1 Remunerations (Wages and Salaries)	The Minister in cooperation with General Director of KP should review the failure in addressing the AG's recommendations and put in place additional controls over the management of recruitment procedures. Recruitment procedures should begin on time and period of operating as acting officer should not exceed the period specified in the Administrative Instruction.			Not implemented. Despite all the efforts to reduce the number of Acting Duty positions, a large number of positions continue being occupied in this form for long periods of time.
3.5.2 Subsidies and Transfers	The Minister should review and investigate reasons of failures to accomplishing the objectives on the above cases and ensure additional controls in this regard. Projects financial support must be accompanied by appropriate monitoring procedures to ensure that spending targets are achieved in this category.	Although the audit has identified several similar cases that belong to the first part of 2017, we consider that this recommendation has been implemented. A new regulation on reintegration of repatriated persons has been drafted, which contains subsidizing competencies of this category to the Ministry of Labour and Social Welfare. In addition, form of financing has also changed, where beneficiaries instead of financial means they receive equipment and tools.		

3.7.1 Capital and Non Capital Assets	The Minister in cooperation with General Director of KP should ensure a review of the reasons behind the failure to address AG recommendations and set additional measures to strengthen controls over this unit. Controls should include the whole process from the defects identification to their reparation. This would eliminate the long waiting process and would ensure more efficient use of vehicles.			Not implemented. There are still weaknesses in management of fleet, namely long waits for repair of vehicles.
3.7.2 Handling of Debts	The Minister in cooperation with Secretary General and General Director of KP should ensure additional controls in the management of liabilities. The accurate values of the liabilities need to followed one month to another, in accordance with legal requirements and necessary measures should be taken to strengthen controls on these processes.			Not implemented. Even this year we have identified outstanding and unreported invoices in AFS from the previous years.
Audit Component	Recommendations given in 2016	Implemented	Under implementation	Not implemented
Emphasis of Matter	The Minister, in cooperation with KP Director, should ensure that the necessary measures and actions are taken to improve the identified errors in emphasis of the matter. In this regard, appropriate actions should be taken to ensure that all expenditures are properly planned in their respective categories and avoid misstatement of expenditure in AFS.			Not implemented. Even this year projects have been budgeted incorrectly, and as a result we misclassification of expenditures.

Low level of implementation of prior year's recommendations	The Minister in co-operation with Directors of Agencies should implement an effective process for monitoring the implementation of the Auditor General's recommendations, which sets the target time and the responsible officials. The process should be constantly reviewed and additional actions should be taken in order to overcome the obstacles emerging during the implementation.		Under implementation (See chapter 4).	
2.2 Self-Assessment Checklist of FMC components	The Minister should ensure that General Directors of Agencies are delegating direct responsibility for risk management by providing reporting on the implementation of requirements in this area and on the managed risks.		In the process of implementation. KAPS and KPI have compiled the risks register, while the KP has not yet managed to draft such a document.	
3.1 Budget Planning and Execution	The Minister in cooperation with KP Director should ensure an appropriate execution of the budget for capital investments. Based on the causes of low budget execution, undertake adjustment actions, monitor the budgetary performance on regular basis, and if necessary, take actions.			Not implemented. There was still a low level of budget execution in the category of capital investments compared to the initial budget.

3.1.2 Wages and Salaries	The Minister in cooperation with KP Director should undertake additional actions in order to discontinue covering of management positions with A.S. The duration of the function as A.S. should not be longer than the prescribed legal period.			Not implemented. Despite all the efforts to reduce the number of Acting Duty positions, a large number of positions continue being occupied in this form for long periods of time.
	The Minister in cooperation with KP Director should ensure that the systematization of police staff in vacant positions is done after meeting the criteria and ensure a process of regular promotion or recruitment within KP.			Not implemented. This number has increased compared to the previous year.
3.1.3 Goods and Services and Utilities	The Minister in cooperation with Directors of Agency should ensure that actions are taken towards discontinuing the practices of such engagements in absence of procedures, and avoid their payments in violation with the laws.			Not implemented. Even this year was identified the same issue.
	The Minister should ensure that controls in the payment execution process are monitored on a continuous basis. The payment process should be made in full compliance with the steps established by LPFMA, and with Treasury Rules.			Not implemented. There are still irregularities in processing of payments.

3.1.4 Subsidies and Transfers	The Minister should strengthen the mechanisms for better management of subsidies, by ensuring an appropriate utilization of money in order to achieve the intended goal. At the same time to provide sufficient budgetary funds prior the approval of subsidies.	Although the audit has identified several similar cases that belong to the first part of 2017, we consider that this recommendation has been implemented. A new regulation on reintegration of repatriated persons has been drafted, which contains subsidizing competencies of this category to the Ministry of Labour and Social Welfare. In addition, form of financing has also changed, where beneficiaries instead of financial means they receive equipment and tools.		
3.1.5 Capital Investments	The Minister, in cooperation with the KP General Director, should ensure strengthening of further controls on planning processes (possible obstacles), monitoring and implementation of capital projects , in order to respect the deadlines for contract execution.			Not implemented. There are still delays in fulfilment of contracts.

3.1.6 Common issues on Goods and Services and Capital Investments	The Minister, in co-operation with the KP Director, should ensure that measures are taken in order for demand units prior the initiation of expenditures to conduct an analysis of needs and make good planning of the budget.	Recommendation has been implemented. We have not identified such cases this year.		
	The Minister in cooperation with KP Director should provide additional controls in order to ensure that contracts are signed only upon the existence of funds for their execution.	Recommendation has been implemented. We have not identified such cases this year.		
	The Minister in cooperation with KP Director should ensure that the contracts are signed according to legal deadlines without delaying their signature. This would ensure better performance of the activities, better budget execution and avoiding payments in the last part of the year.			Not implemented. Even this year we have identified delays in signing contracts.
	The Minister, in cooperation with the KP Director, should ensure regular oversight of the budget execution process, in order for each invoice to be paid within the statutory deadline.			Not implemented. Even this year there has been delays in paying invoices.

3.2.1 Capital and Non Capital Assets	The Minister in cooperation with KP Director should review the reasons for failing to implement the AG recommendations (in the last three years) and establish additional measures to strengthen controls in this unit. At the same time strengthen controls in identifying defects up to their fixture , by ensuring more efficient use of vehicles.			Not implemented. There are still weaknesses in management of fleet, namely long waits for repair of vehicles.
3.3 Outstanding Liabilities	The Minister in cooperation with KP Director should ensure additional controls on reporting liabilities so that accurate values are reported during specific time periods and are observed from month to month until they are paid.			Not implemented. Even this year we have identified outstanding and unreported invoices from the previous year.

Annex III: Comments of the BO on audit findings

Findings/ Issues	Agree yes/no	Comments of the BO in case of disagreement ⁶	Views of the NAO
Issue 1: Annual Financial Statements (Recommendation 1)		<p>MIA - We have made changes within the legal deadline wherein we have disclosed the correct report of Accounts Receivable by the Kosovo Police, and we submitted to the Treasury adjusted Annual Financial Statements, which were not accepted by the Treasury (failure by the Treasury to accept Statements was not in compliance with applicable legislation). We had a notification that we should submit the Report of AFS to the Treasury before 20th March 2018, but we took as base applicable legal provisions of the LPFMA no. 03/L-048, Article 44, paragraph 3, on changes to the Annual Financial Statements and based on a paper dated 22.01.2018, with no. 01/401 from the Auditor General to the Treasury.</p> <p>Kosovo Police - there was no notification that we have to send the Report of Annual Financial Statements to the Treasury before 20th March 2018, but we took as a base applicable legal provisions based on the LPFMA no. 03/L-048, Article 44, paragraph 3 on changes to the Annual Financial Statements and based on the paper dated 22.01.2018, with no. 01/401 from the Auditor General to the Treasury. Kosovo Police has made changes within this legal deadline and we have sent to the Treasury the adjusted Annual Financial Statements, within these changes were also disclosed Accounts Receivable.</p>	The Annual Financial Statements on which we have given the audit opinion are those that we have officially received from the Treasury. The same were not adjusted. The issues of lack of coordination of the Ministry with the Treasury are matters beyond our responsibility. Therefore our findings and recommendations in this area remain unchanged.
Issue 2: Annual Financial Statements (Recommendation 2)		<p>Kosovo Police - has foreseen capital projects for the purchase of various police equipment, projects that are on-going since the establishment of the Kosovo Police. Within these projects, contracts include equipment with a life expectancy of over 10 years and with a price of over €1,000. Therefore,</p>	Comments given by the audited entity are just justifications which do not change our conclusion. Finding

⁶ For information purposes in cases where the Management did not agree, we have put the comments as we have received without correction in spelling.

	<p>these projects are planned within the category of capital investments in cooperation with budget analysts within the Ministry of Finance. This planning was approved under the budget law of each year, and are implemented based on those laws.</p> <p>For two consecutive years the Kosovo Police has asked the Ministry of Finance to transfer 4.0 million euros from the category of Capital Investments into that of Goods and Services in order to implement this recommendation, but in the meeting that we had with the Minister of Finance, Minister of Internal Affairs and Police representatives, was emphasized by the Minister of Finance that it is impossible to make such an adjustment. There is a similar problem with many budget organizations, and for regulation of this recommendation are needs years.</p>	<p>and recommendation remain unchanged.</p>
Issue 3: 3.1 Budget Planning and Execution	<p>MIA - This recommendation has now been addressed, MIA's senior management based on the reports provided by the BFD on weekly and monthly basis, monitors budget performance every week, and is making maximum efforts to identify and address timely obstacles presented, in order to improve budget performance, to achieve planned level of budget execution.</p> <p>Kosovo Police - No comparisons are done with funds that are not available, because if those funds were available it does not mean that we did not have needs to spend those funds, but priorities are accomplished according to budget possibilities. The initial budget cannot be taken as a base to compare it to expenses at the end of the year with the sole purpose of showing a poor performance, which is not real.</p> <p>Every year the start of allocations for the Kosovo Police starts in the second half of February and up until now the Kosovo Police cannot take any actions. Most of Kosovo Police equipment are part of the list of Special Purpose Equipment - SPE, which according to the law should be approved by the Prime Minister every year. Without the approval of this list the Kosovo Police cannot undertake any procurement activity, while on the other hand this list is usually approved and signed after March or is not</p>	<p>Regarding the reporting, we have also stated in the report that there is a well-designed reporting system (see subchapter 5.2). However, this is not enough to improve the budget performance. Figures show that more management measures are needed in order to improve budget performance, especially in capital investments. Therefore the finding and recommendation remain unchanged.</p>

		signed at all. Special Purpose Equipment due to complicated import procedures, prolonged control procedures by producing countries, and going through countries as transit, usually takes more than 6 months to be delivered. Given the delays in allocation of funds, orders are made in March, and on the other hand the delivery under normal conditions takes over 6 months, this justifies execution of the budget in the last three months of the year. Delays in budget allocation and delays in approval of SPE list, long procedures for delivery of equipment, are issues that do not depend on the Kosovo Police, but on the other hand the Kosovo Police depend on these issues for implementation of this recommendation.	
Issue 4: Lack of revenue planning	Do not agree	<p>MIA - According to the legal provisions in force, we were not obligated to make revenue planning, but every year we have sent a report to the Department of Macro-Fiscal Policies in the Ministry of Finance regarding the collection of revenues, while since this year we have started planning revenues through MTEF.</p> <p>Kosovo Police - It was not required in the MTEF or in any other Circular upon planning of the budget to make a revenue planning, as if such thing was requested as is required in this MTEF of this year, we would do such a thing. Over 95% of the revenues are not used by the Kosovo Police, and we did not have a document or base to make such a disclosure, therefore we did not need to do such an analysis.</p>	Despite the fact that earlier was not required under any law, regulation etc. to make revenue planning by the MIA, it is a recommendation of the Auditor General that this should be done starting this year. This helps the Ministry to evaluate the performance in terms of revenue collection. Finding and recommendation remain unchanged.
Issue 5: Occupying leadership positions with Acting Duty for long periods of time		<p>Kosovo Police employs 1081 civil servants for whom is applied Administrative Instruction No. 07/2012 on employment relationship in the Kosovo Police, and other Guidelines applicable in the Kosovo Police. In the Kosovo Police 2 (two) positions have been covered with civilian staff as Acting, while currently there is only one Acting in the position of Director of Department for Management of Buildings. Even for this position were developed competition procedures, but after the selection of the successful candidate the competition was cancelled by the IOBCS.</p> <p>The total number of police officers in the Kosovo Police is 7636, out of which 12 (twelve) positions are covered by Acting. Covering positions</p>	Data disclosed in the report refer to the official data received by the Kosovo Police for 2017. If this situation has changed during 2018, then such a fact can be disclosed in the action plan as measures taken to improve the condition. However, the finding and recommendation remain unchanged.

		with Acting for a longer period of time was due to completing positions that have remained vacant due to temporary suspension or transfer of police officers due to investigations, a procedure that is regulated by the AI. No. 04/2017. Kosovo Police will continue to adhere to applicable Laws and Regulations as well as recommendations issued by the Auditor General or the Internal Auditor.	
Issue 6: Exercising positions in disagreement with ranks achieved		Kosovo Police in the systematization of uniformed staff implements Administrative Instruction No. 04/2017 on employment relationship in the Kosovo Police. In the absence of adequate staff for a certain position, the General Director according to the AI-04/2017 is the authority for filling of these positions until is completed the necessary number of grading processes, which the Kosovo Police prepares based on the number necessary to complete the organizational structure. Kosovo Police is in the process of promoting police officers based on promotion procedures, this will continue until all positions are completed based on the organizational structure. Kosovo Police has frequent cases where police officers are suspended or transferred due to criminal or domestic investigations as in the abovementioned case in recommendation 5, where their positions have to be filled with other staff until recommended by investigating authorities for termination of suspensions or transfer due to investigations.	The comment made by the KP is a tendency to justify the situation and not contradict the finding. We have not challenged the need to appoint staff to certain positions, nor the right of the general director to appoint them. We are pointing out that payments should be made in accordance with the approved regulation on salaries of police officers, namely, so that officials are paid according to rank achieved. Therefore the finding and recommendation remain unchanged.
Issue 8 - Delays in carrying out payments		Since the beginning of 2016, Kosovo Police after the recommendation in the Audit Report of 2015 has undertaken actions to avoid as much as possible delays in execution of payments. Three officials within the Directorate of Budget and Finance have been appointed, who receive and protocol invoices and complete cases for payment. It is worth mentioning that now the Police of Kosovo for implementation of procedures uses the electronic system PRIMS which among other things warns of the remaining days for timely execution of payment of each invoice in the process, which will avoid the possibility of payment delays. In 2017, upon planning and executing the budget according to the five-digit code, there	The comment does not dispute the finding, as delays in making payments are documented. Finding and recommendation remain unchanged.

		were many difficulties in managing liabilities. In this case, has risen the need to make continuous requests to the Ministry of Finance for reallocation of funds in order to cover liabilities and to execute the budget as planned. There have been some delays in the execution of payments due to lack of timely approval of KP requests for reallocation of funds by the Ministry of Finance. As is known, this problem existed not only in KP but in all budget organizations, although this has been well managed until the end of the year, which has resulted in a small number of outstanding liabilities.	
Issue 9- Failure to functionalise the business		MIA - Regarding the execution of the business plan in the amount of €3,000, the case was completed according to the legal provisions in force (decision, business plan, pro-forma invoice, business certificates, repatriation evidence etc.) and based on the Regulation on Reintegration of Repatriated Persons no. 04/2016, as you have stated that in the case is missing the invoice, but according to the contract the party is obligated to bring the original invoice after six months of payment execution, which means that at the stage when you were auditing it is not yet within the deadline for bringing the original invoice (we have attached evidence). All business plans funded by the MIA are regularly monitored (every three months) as foreseen under respective applicable legislation. For this there are individual monitoring evidence of each beneficiary, which were also presented during the audit. Invoices of vehicle spending are presented by the beneficiary and are attached to the case after the goods for business have been purchased for the concerning business, as defined in the agreement signed with the beneficiaries. Also in Annex II you have ascertained that this recommendation was implemented.	The comment is unfounded as execution of the payment was made on 11.05.2017, while the report of the monitoring commission dated 09.02.2018 confirms that foreseen items have not been purchased. Therefore finding and recommendation remain unchanged.
Issue 10 - Exceeding of deadline for evaluation of bids in the KP		The case mentioned in the report is the only case where delays occurred. Even this delay was not dependent on the Kosovo Police. PRB within its mandate has reviewed complaints, and on 11.11.2016 we have received the decision with no. 294-297/16, so that the case is to be returned for revaluation, and request information based on Article 72 of the PPL and	The comment of the KP is an attempt to justify the delays. We have emphasized this reasoning in the report as well. However, such delays may directly affect the quality of the

	<p>also to conduct Laboratory examination in order to confirm ballistic protection. Kosovo Police as Contracting Authority immediately after receiving the decision has formed a professional commission for revaluation of bids which has examined the administrative part and technical specifications of samples provided. In order to fulfil the request of the PRB for Laboratory Examination to confirm ballistic protection, after the contact with the Kosovo Forensic Agency we have the confirmation that in order to test the body armour according to the standard for safety testing NIJ-III A and NIJ-IV, there should be at least seven (7) bulletproof vests for each operator (two inner vests, two outer vests and three outer vests with plates). Also for execution of these examinations, the Kosovo Forensics Agency has informed that they do not have necessary weapons and ammunition. On 25.01.2017, they explained to the PRB the additional requirements of the laboratory and the inability to perform Laboratory Examinations to confirm ballistic protection. This notice and request for clarification/ review has been addressed to the PRB several times, but they have not responded to our requests.</p>	<p>services provided by the KP. Therefore finding and recommendation remain unchanged.</p>
<p>Issue 13 - Irregularities in receiving goods and processing of payments</p>	<p>MIA - This recommendation can be considered addressed - mainly, despite the efforts of the DBF to implement the LPFMA no.03/L-048 and the Financial Rule no. 01/2013/MoF on Spending of Public Money, in the payment for "Supply with certificates for registration of vehicles" in the amount of €27,700, we as DBF have executed this payment based on justification of contract manager, and the payment for "Supply of consumable material for DNA Laboratory" in the amount of €57,500, given that we were at the end of the fiscal year and were short of funds in the economic item 13610 (office supply) where we were obligated to respect Article 17 of the Law on Budget No. 05/L-125, we have made internal moves with the decision of the MIA-MoF and Government, for execution of this payment, also based on the justification given from the Kosovo Forensics Agency regarding the necessity of this supply.</p>	<p>Comments of MIA and KP are just justifications and not a contradiction of the situation presented in the report, which is a factual situation. Therefore finding and recommendation remain unchanged.</p>

		<p>Kosovo Police – such this is done only in cases when there is no other choice. Taking as an example the fuel supply, as it is known the Kosovo Police is active 24 hours by providing security for citizens of the Republic of Kosovo throughout the country. Mobility and the fastest presence in any problematic place is essential for fulfilment of legal responsibilities of the Kosovo Police. If Kosovo Police, according to an estimate issues a Purchase Order for an approximate value, then there is a possibility that this value may be spent for example at the end of the month after the working hours, and to lead to a situation where the economic operator due to the expiration of the purchase may not supply Kosovo Police vehicles with fuel. This will lead to the impossibility of moving Kosovo Police vehicles to respond to cases in the defence of citizens. As an illustration at that time can happen murders, bank robberies, thefts, etc. whereas the Kosovo Police due to lack of fuel will not be able to intervene and be present at those locations to fulfil the legal obligation. Allowing such situation that jeopardises the security of citizens and national security in general is unacceptable to the Kosovo Police, and the only solution found was that the purchase order is to be issued at the end of each month. Different from this, it is worth noting that at the purchases initially is issued a purchase order and then goods are accepted, and there are no other different cases.</p>	
Issue 14 - Understatement of capital assets		<p>MIA – With this finding we partially agree as when it comes to this finding on assets recording under €1,000, the finding regarding the non-recording of Air Conditioners in the EMA in the amount of €1,044 remains, while the purchase of two ACs in the Civil Registration Agency in the amount of €661 were recorded in the warehouse and in the e-assets. Evidence is attached regarding the "Unified Statistical Reporting System" in the amount of €41,595, the recording of this project was done separately according to items and the type of assets, based on the Regulation for Recording of Assets No. 02/2013, and not as a total value of the of system.</p>	The finding has been adjusted for two ACs. The rest of the finding and recommendation remain unchanged.

	<p>One part is recorded as Capital Assets in Free Balance and the rest as Non-Capital Assets in the "e-Assets".</p> <p>Kosovo Police - This supply was with IT equipment, namely with cards that are placed on different servers, as seen in the finding of the NAO it concerns 2.830.00 Euros. In this supply there were other devices which we have recorded in the system except for some of the cards that were mentioned above which are very small and cannot be labeled with barcodes, and therefore we have not recorded them until our first chance in order to record them into the system. We have recorded in the system this value and for this the NAO is notified by e-mail.</p>	
Issue 15 – Weakness in management of fleet vehicles	<p>Kosovo Police uses vehicles without interruption 24/7 in carrying out police duties. The majority of vehicles in their possession are older than 7 years and as a result of uninterrupted work are worn out and have a significant mileage. On the other side as of 2009 due to complicated Procurement Procedures and Budget Shortages the Kosovo Police has not been able to buy new vehicles. Starting from 2015, the Kosovo Police has purchased about 150 new vehicles that could not alleviate the situation even closely. About 80% of the vehicles that Kosovo Police is using have passed the 7-year life span and have over 250,000 km. Due to the aging of vehicles and wearing off from uninterrupted use has led to a situation that these vehicles require frequent repairs. Since the middle of 2015 the Kosovo Police did not have a contract for spare parts for vehicles. This was caused due to the inability to successfully complete procurement procedures which was not the fault of the Kosovo Police. The first time the winning company without reason was withdrawn from the tender at the stage of signing of the contract, claiming that it is impossible to deliver original parts as required in the tender dossier, despite the fact that during the entire procedure has stated that they will be delivered. In this case, the Kosovo Police has made a request for confiscate the tender security.</p> <p>The second time in the final evaluation phase the winning company has withdrawn from the tender by refusing to provide the type of equivalent</p>	Despite justifications given by the KP, the factual situation is the one presented in the report, therefore finding and recommendation remain unchanged.

		<p>parts that it has offered. The contract for the spare parts of vehicles we have managed to conclude in 2017. Due to lack of parts makes it impossible to service vehicles. In the operational fleet for vehicle maintenance there is a professional staff that consists of various profiles such as: mechanics, electricians, body repair specialists, tire repair specialists, which on a daily basis perform maintenance on average of 36 police vehicles. In addition to the maintenance and repair of vehicles in fleet servicing, is also done technical control of vehicles. The Kosovo Police Operational Fleet, even in the absence of parts, by repairing and modifying old parts has continuously reduced the number of pending vehicles. Kosovo Police gives particular importance to the Operational Fleet and despite difficulties which were also discussed above, makes a good management of the situation while maintaining mobility. Good management of the Operational Fleet is also confirmed by the KPI report (Inspection report on management of the fleet of vehicles and police equipment, No. 1/2017) which is public and has also been given to auditors. In this report, among other things is mentioned reduction of vehicle maintenance costs by over 70%, despite the difficulties and age of vehicles, as well as the evident increase in the number of active/operational vehicles. The above mentioned clarifications prove that the finding "Weakness in fleet management " absolutely does not remain.</p>	
Issue 16 - Delays in inventorying of assets		<p>Due to the size of the Kosovo Police as an organization, extent and variety of assets, usually in the past was needed time to conduct the inventory. But to approach this, the practice of using the inventory commission with more teams across the country is making the inventory faster and more accurate. Even this year, as noted in the draft report of the NAO, although the inventory as a process was completed earlier, the final report as a document was completed on 19.03.2018 before the legal deadline for improvement of the AFS.</p>	<p>Despite justifications given by the KP, the factual situation is the one presented in the report, therefore finding and recommendation remain unchanged.</p>

Issue 17 - Open Advances		The Kosovo Police had only on advance open of 2017 in the amount of €15,249 which was closed in 2018, the rest of advances have remained open in the Ministry of Finance which is a matter that concerns them. As we have informed auditors, we have had several meetings with Treasury representatives regarding this issue for several years, for which we have not managed to clearly identify which advances does this concern, most likely they are only omissions made during the closing of advances, which is more of a technical nature.	Finding and recommendation remain unchanged.
Issue 18 - Incorrect reporting of outstanding liabilities		Reporting has been fair, except for in 2018 when there has been a reconciliation between payments made by the KP to the company which has supplied fuel, while invoices were made in part that we meet liabilities to EOs as soon as possible, invoices which have been reported by the auditor have been disputable and therefore were not reported as a liability, upon completion of the form for reporting of financial statement, after the research that we have done, we noticed that we have a liability to the said company after which the payment was carried out immediately.	Despite justifications given by the KP, the factual situation is the one presented in the report, therefore finding and recommendation remain unchanged.
Issue 19 - Implementation of recommendations from previous and earlier year		Regarding the implementation of recommendations from previous auditors' reports, Kosovo Police immediately plans and undertakes activities for implementation of those recommendations that remain and are feasible.	Many of the findings disclosed in the report are repeated from the previous years, thus it was stated that recommendations have not been implemented. Finding and recommendation remain unchanged.